



ACCRUAL ACCOUNTING BENEFITS: AN EXTENSIVE LITERATURE REVIEW

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Abstract

The purpose of this study is to review scholarly works on accrual accounting's advantages. The advantages of accrual accounting can be divided into six main groups: accountability, transparency, dependability, managers' capacity to evaluate service costs, and more comprehensive and high-quality information. Last but not least, this paper outlines the goals of accrual accounting as well as its significance. The aforementioned research are systematically observed in this investigation. The advantages of accrual accounting are divided into six groups by this study: accountability, openness, dependability, managers' capacity to evaluate service costs, and more comprehensive and high-quality information. According to this study, in order for the government to more effectively implement accrual accounting, it is vital to take into account the factors that influence accrual accounting. The results of this study will help the government, industry, regulators, and scholars better understand the advantages of accrual accounting.

Keywords: *accrual accounting, benefits of accrual accounting, accountability, objective of accrual accounting.*

Abstrak

Studi ini bertujuan untuk meninjau pekerjaan penelitian akademis tentang benefit akuntansi akrual. Area manfaat akuntansi akrual telah diklasifikasikan ke dalam 6 kategori besar, yaitu informasi yang lebih lengkap, kualitas informasi yang lebih baik, manager dapat membandingkan biaya layanan, akuntabel, transparansi, andala. Akhirnya, studi ini mengidentifikasi the objective of accrual accounting, important role of accrual accounting. Penelitian ini memberikan tinjauan sistematis dari studi-studi di atas. Studi ini mengklasifikasikan manfaat akuntansi akrual kedalam 6 kategori yaitu informasi yang lebih lengkap, kualitas informasi yang lebih baik, manager dapat membandingkan biaya layanan, dapat dipertanggungjawabkan, transparansi, andala. Studi ini mengidentifikasi bahwa untuk meningkatkan keberhasilan penerapan akuntansi akrual, perlu mempertimbangkan faktor-faktor penentu akuntansi akrual sehingga pemerintah dapat menjalankan akuntansi akrual lebih baik lagi. Studi ini akan memberikan kontribusi positif untuk memahami manfaat akuntansi akrual bagi akademisi, industri, regulator, dan pemerintah.

Kata Kunci: *akuntansi akrual, keuntungan akuntansi akrual, akuntabel, tujuan akuntansi akrual*

INTRODUCTION

The accrual accounting itself is a popular concept that is being used in the private sector. This is because the accrual accounting is considered to provide a great benefit to users. Accrual accounting provides more reliable information because it can provide information on the obligations and rights, that could be received in the future. Kieso et al. (2011), accrual basis accounting in which revenue is



recognized when generated and expenses are recognized in the period incurred, regardless of the time of receipt or payment of cash. In the accounting practices of government in Indonesia, the accrual basis is used to present the assets, liabilities, and equity funds. The asset is recognized when received or the left or right of ownership and mastery during switching. However, liabilities are recognized when the loan funds received or when the obligation arises.

The various impetus for accounting reform in the public sector also comes from various international institutions such as the IMF, World Bank, and the International Federation of Accountants (IFAC) actively promotes the adoption of management and the private sector techniques into the public sector (Robb & Newberry, 2007). Support and encouragement from the important institutions are not surprising that accrual accounting is adopted by the public sector. Every country is now trying to make accounting system reform in the public sector. For example, Indonesia has gradually transformed the cash basis system into the accrual system starting in 2003 until 2014. Although it looks good, the concept of accrual accounting still has a lot of debate from several parties. This was concluded by Ellwood and Newberry (2006), suggest that accrual accounting, provide the means and reduce government procurer services for the UK and New Zealand. Thus, the neo-liberal principles can be applied for controversial privatization and the commerce liberalization program.

One of the factors that encourage the adoption of accrual accounting is dissatisfaction and shortcomings that are owned by the cash basis. Tickell (2010) as cited in Dickinson (2000), stated that this movement from a cash-basis towards an accrual-basis is the result of calls for greater transparency and accountability in the public sector. Accrual accounting became very popular with the support of various international organizations such as the World Bank, the Organization of Economic and Development, IMF, and the Credit Rating Agencies (Ellwood & Newberry, 2006).

Thus, the application and purpose of the accrual basis accounting are basically to achieve actual information on the services provided by the government to be more transparent and improve the quality of government decision-making. Countries that apply the accrual accounting, which requires the manager to be responsible for the entire cost of the production, not only the cash value paid. In summary, when managers are given flexibility in managing the resources entrusted, they are concerned to provide accurate information like that. Only the accrual basis, the actual cost can be informed and this will support effective decision making.

THE OBJECTIVE OF ACCRUAL ACCOUNTING

Organization for Economic Co-operation and Development (2002) explains that the use of accrual basis accounting is becoming a trend in many countries.



Nowadays, it is certainly very relevant to the objectives and benefits of the use itself. One of the characteristics of modern financial management public sector is the use of accrual accounting, which aims to provide more transparent information on the costs and improve the quality of decision making by using the expanded information in government, not just giving attention to cash. In general, the accrual basis had been implemented in countries that have advanced in public management reforms such as New Zealand. It was the first country to apply it in the financial statements and accrual-based budget in the world since the 1990s. The key purpose of accrual accounting is to hold the managers of the output side and the outcomes and at the same time loosening control over inputs. Hence, only the accrual basis to recognize all the costs. Thus, managers of public sector organizations can make decisions efficiently and effectively.

Watkins and Edward (2007) explain one of the concepts derived from the NPM. That is the adoption of private sector management styles to the public sector. The choice of accounting basis, cash accounting still dominates worldwide. However, the trend is a gradual shift from cash accounting towards an accrual accounting. International Federation of Accountants (2010) recommends that public sector financial management with uses the accrual accounting will encourage transparency and accountability.

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Organization of Economic and Development, IMF, and the Credit Rating Agencies (Ellwood & Newberry, 2006).

Blondal (2003) states that the objective of moving to accrual accounting is to make more transparent the cost of government, and also the further purpose for adopting accrual accounting is to improve the information in the decision-making of government. Furthermore Tickell (2010) wrote an excerpt from the Public Sector Committee (2002) which states: "The Public Service Committee (PSC) of the IFAC believes that the accrual based financial statements will provide relevant information, reliable information, comparable and useful to users of financial information".

Besides the argument that accrual accounting can provide better accountability, it also gets a challenge from some experts who claimed that not all public sector matched with the accrual accounting and the accrual accounting actually own that blur the accountability information and transparency in some organizations (Beechy, 2007). Although it has many limitations, cash-based accounting has several advantages that are still widely used by the public sector in some countries. Cash based accounting is simpler, less expensive and easier to understand by non-accountants (Buhr, 2010).

Nasution (2008) emphasizes the need for fundamental changes to gradually replace the cash-based to accrual accounting. Furthermore, Nasution explained that the accrual-based accounting system can be measured by the cost of government services, the performance and efficiency of government. The accrual-based system, it can also be known as government contingent liabilities recorded commitments or contingent rights and obligations of the state, especially for the receipt and expenditure beyond the period of one fiscal year. The accrual-based budget will enable the long-term budget planning that exceeds one fiscal year.

Some countries require a long time to adopt the accrual accounting. Jones in Buhr (2010) explains the lack of need for comparative financial statements between public sector to assess performance. This is because each government has the ability to set financial and accounting policies as it wishes. In addition, accounting in the public sector is only seen as a liability rather than as a decision-making tool. The main advantage of cash accounting is that, it is very simple and that made governments to be reluctant in moving to accrual accounting.

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IMPORTANT ROLE OF ACCRUAL ACCOUNTING

The controversy between cash accounting and accrual accounting as a basis for a high performance management system which implies that the decision to choose between cash accounting and accrual accounting is supposed to theoretically and practically. Blondal (2003), which recognizes the public sector accounting reform along with other managerial reforms so that decision making can be improved by government.

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International literature mentioned that the advantages of accrual accounting are two levels. The first level is the capacity to provide complete and correct information about resources, income, and debt, to improve communication with stakeholders, as well as the general public and the community leaders (Ho & Ni, 2005). The second level is the ability to achieve full cost information, an important factor to improve organizational planning, accountability, and control (Chan,



2003). Based on theoretically, the advantages of using accrual accounting for managers include: outsourcing decisions, budgeting and allocation of financial resources, evaluate the cost of services and internal accountability (Likierman, 2000; Ball, 2004).

Weakness move from cash basis to accrual basis system refers to the possibility of the relationship between economic entities, and public institutions. In addition, the ability of the decision by the management team are assessed by different criteria: if the first case implies the ability to make a profit, the second case aims to achieve social goals (Mulgan, 2002). In spite of this circumstance, Chrstiaens and Peteghem (2007) states that there is some suspicion related to the difficulty and cost of adoption, the possibility to valuate and properly recognize the assets. According to Spathis and Ananiadis (2004), Accountability is to describe the responsibilities that those who control and manage the resources belonging to the other. Additionally, Monsen (2002), cited by Cohen, Sykianakis & Venieris, (2009) argued that the cash accounting contributes to improve the control of public money in the budget related to the core public administration and meet the needs of information related to budget control, money management, and current dues /actual control.

There are few empirical studies to maintain or cancel the advantage of accrual accounting base in ensuring the high performance of the management system, particularly for public entities. In developing countries their number is even lower. Besides that, these studies have been conducted primarily in the western Europe and United States (Tudor & Fatacean, 2007). Therefore, the findings do not always represent the East European countries, having in mind the economic, historical and social characteristics. In Relation to the public entities (local government), some supporting ideas that it is clear that the benefits of accrual accounting is achieved cannot be expected (Cohen, Sykianakis, & Venieris, 2009). The others criticize the trend to interpret the bureaucratic managerial innovation, which highlights the idea that the unnecessary the application of accrual basis in this sector (Steccolini, 2002).

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CONCLUSIONS

This study aims to review academic literature on the benefits of accrual accounting. The advantages of accrual accounting, including accountability, openness, reliability, managers' ability to assess service prices, and more thorough and superior information, are thoroughly examined in this paper. According to the foregoing explanation, the advantages of using accrual accounting include managers' ability to assess service costs, responsibility, transparency, dependability, and more thorough and superior data. The financial accounts accrual has more information than the cash accounts and a greater focus on outputs not inputs; Account accrual information provides management and decision-makers with better information quality; The manager can compare the costs of services provided by the government sector generated by the private sector and non-for-profit companies; Provide a more transparent in evaluating the performance of management; The cost of capital assets is spread over the useful life of the asset; and Provide an assessment more effective and reliable than the financial health of the organization and government policy.

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